

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Imlay City, Michigan</u>	County Lapeer
Audit Date June 30, 2004	Opinion Date September 3, 2004	Date Accountant Report Submitted To State: December 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043-7903
Accountant Signature 			

City of Inlay City, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Imlay City, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Commission
City of Imlay City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Imlay City, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Imlay City, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Imlay City, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Commission
City of Imlay City, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Imlay City, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

September 3, 2004, except Note 10 as to which the
date is December 21, 2004

City of Imlay City, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Imlay City, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$25,650 this year. The City's proactive response to the decline in state-shared revenue was to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs and staffing levels and discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.
- Total net assets related to the City's governmental activities increased by approximately \$598,000.
- The City began a long-term investment in its infrastructure by constructing an extension of water and sewer lines on Newark Road east of M-53 with the assistance of MEDC funding in the amount of \$786,000 and MDOT funding in the amount of \$191,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Imlay City, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004. Prior data is not available.

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 3,823,938	\$ 1,269,878	\$ 5,093,816
Noncurrent assets	<u>3,663,498</u>	<u>10,443,610</u>	<u>14,107,108</u>
Total assets	7,487,436	11,713,488	19,200,924
Liabilities			
Current liabilities	515,442	124,475	639,917
Long-term liabilities	<u>801,900</u>	<u>4,195,000</u>	<u>4,996,900</u>
Total liabilities	<u>1,317,342</u>	<u>4,319,475</u>	<u>5,636,817</u>
Net Assets			
Invested in capital assets - Net of related debt	3,019,004	6,248,610	9,267,614
Restricted	198,918	425,953	624,871
Unrestricted	<u>2,952,172</u>	<u>719,450</u>	<u>3,671,622</u>
Total net assets	<u>\$ 6,170,094</u>	<u>\$ 7,394,013</u>	<u>\$ 13,564,107</u>

The City's combined net assets increased 8 percent from a year ago, increasing from \$5,571,861 to \$6,170,094. The increase includes MEDC funding in the amount of \$786,000 and MDOT funding in the amount of \$191,000, which helps fund a long-term investment in infrastructure by constructing an extension of water and sewer lines on Newark Road east of M-53. In addition, funding was provided by FEMA to purchase fire equipment.

The current level of unrestricted net assets for our governmental activities stands at \$2,952,172.

City of Imlay City, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year:

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 560,776	\$ 1,396,609	\$ 1,957,385
Operating grants and contributions	570,162	-	570,162
Capital grants and contributions	37,644	-	37,644
General revenue:			
Property taxes	1,150,533	449,644	1,600,177
State-shared revenue	519,340	-	519,340
Unrestricted investment earnings	78,824	23,351	102,175
Franchise fees	31,571	-	31,571
Transfers and other revenue	25,000	(25,000)	-
Total revenue	2,973,850	1,844,604	4,818,454
Program Expenses			
General government	110,487	-	110,487
Public safety	1,085,050	-	1,085,050
Public works	1,053,036	-	1,053,036
Recreation and culture	101,159	-	101,159
Interest on long-term debt	25,885	-	25,885
Water and sewer	-	1,806,526	1,806,526
Total program expenses	2,375,617	1,806,526	4,182,143
Change in Net Assets	\$ 598,233	\$ 38,078	\$ 636,311

Governmental Activities

The City's total governmental revenues increased by \$598,233, despite decreases in state-shared revenue, building permits, and interest income. The increase was due primarily to the continuing increase in property taxes.

Expenditure increases were led by large increases in health care costs and property insurance rates. To offset this, the City closely monitored its spending in all other areas, including seasonal hiring and overtime wages.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water to

City of Imlay City, Michigan

Management's Discussion and Analysis (Continued)

residents from the Detroit Water System. We provide sewage treatment through a City-owned and operated sewage treatment plant. Fiscal year 2003-2004 was a drier than average year, which resulted in relatively high usage in the water system. The end result was operating income in the Water and Sewer Fund.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City's major funds for 2004 include the General Fund and the Lamb Steele Special Revenue Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$905,268 in the 2004 fiscal year. The cost of the police and fire departments is funded by general revenue sources of the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to decrease the estimated investment in land and ground improvements for the Parks and Recreation Department by \$83,000. This was a result of being unable to obtain grant funding to match the City, School, and Township joint effort to develop park property. The General Fund's fund balance increased from \$1,419,570 to \$1,461,256 at June 30, 2004.

Capital Asset and Debt Administration

At the end of 2003, the City had \$20,093,110 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines.

Economic Factors and Next Year's Budgets and Rates

It is expected that the City's property tax millage will remain the same in 2005. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

As discussed above, we anticipate that the water rates will have to increase somewhat in 2005. An evaluation of the rates is in the process. A public hearing will be necessary to discuss the necessity of such an increase.

City of Imlay City, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

City of Imlay City, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 3,616,291	\$ 613,299	\$ 4,229,590	\$ 212,420
Receivables:				
Accounts	12,358	164,271	176,629	-
Intergovernmental	187,088	-	187,088	-
Interest and other	7,976	-	7,976	-
Prepaid costs and other assets	225	66,355	66,580	-
Restricted assets (Notes 2 and 7)	-	425,953	425,953	-
Capital assets (Note 4):				
Not depreciated	846,694	55,798	902,492	-
Depreciated	2,816,804	10,387,812	13,204,616	-
Total assets	7,487,436	11,713,488	19,200,924	212,420
Liabilities				
Accounts payable	437,120	114,748	551,868	333
Accrued and other liabilities	8,108	9,727	17,835	-
Deposits	70,214	-	70,214	-
Noncurrent liabilities (Note 6):				
Due within one year	199,063	175,000	374,063	130,000
Due in more than one year	602,837	4,020,000	4,622,837	-
Total liabilities	1,317,342	4,319,475	5,636,817	130,333
Net Assets				
Invested in capital assets - Net of related debt	3,019,004	6,248,610	9,267,614	-
Restricted:				
Drug forfeiture	4,172	-	4,172	-
Industrial development	47,806	-	47,806	-
Street projects	131,471	-	131,471	-
Debt service	15,469	-	15,469	-
Bond ordinances	-	425,953	425,953	-
Unrestricted	2,952,172	719,450	3,671,622	82,087
Total net assets	<u>\$ 6,170,094</u>	<u>\$ 7,394,013</u>	<u>\$ 13,564,107</u>	<u>\$ 82,087</u>

City of Imlay City, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 110,487	\$ 388,752	\$ 238,101	\$ -
Public safety	1,085,050	62,072	-	37,644
Public works	1,053,036	95,041	332,061	-
Recreation and culture	101,159	14,911	-	-
Interest on long-term debt	25,885	-	-	-
Total governmental activities	2,375,617	560,776	570,162	37,644
Business-type activities - Water and sewer	1,806,526	1,396,609	-	-
Total primary government	<u>\$ 4,182,143</u>	<u>\$ 1,957,385</u>	<u>\$ 570,162</u>	<u>\$ 37,644</u>
Component unit - Downtown Development Authority				
	<u>\$ 138,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ 516,366	\$ -	\$ 516,366	\$ -
(985,334)	-	(985,334)	-
(625,934)	-	(625,934)	-
(86,248)	-	(86,248)	-
(25,885)	-	(25,885)	-
(1,207,035)	-	(1,207,035)	-
-	(409,917)	(409,917)	-
(1,207,035)	(409,917)	(1,616,952)	-
-	-	-	(138,836)
1,150,533	449,644	1,600,177	229,042
519,340	-	519,340	-
78,824	23,351	102,175	4,409
31,571	-	31,571	11,566
25,000	(25,000)	-	-
1,805,268	447,995	2,253,263	245,017
598,233	38,078	636,311	106,181
5,571,861	7,355,935	12,927,796	(24,094)
\$ 6,170,094	\$ 7,394,013	\$ 13,564,107	\$ 82,087

City of Imlay City, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General Fund	Special Revenue - Lamb Steele Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 1,626,273	\$ 1,350,075	\$ 548,411	\$ 3,524,759
Receivables:				
Accounts	11,774	-	-	11,774
Intergovernmental	142,135	-	44,953	187,088
Interest and other	-	-	7,976	7,976
Total assets	<u>\$ 1,780,182</u>	<u>\$ 1,350,075</u>	<u>\$ 601,340</u>	<u>\$ 3,731,597</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 165,860	\$ 18,702	\$ 251,463	\$ 436,025
Due to other governmental units	2,552	-	-	2,552
Deposits	70,213	-	-	70,213
Deferred revenue (Note 3)	80,301	-	28,425	108,726
Total liabilities	318,926	18,702	279,888	617,516
Fund Balances				
Reserved for debt service	-	-	15,469	15,469
Unreserved:				
Designated for:				
Environmental remediation	30,000	-	-	30,000
Industrial Park loan repayment	190,000	-	-	190,000
Storm sewer construction	475,000	-	-	475,000
Capital improvements	260,000	-	-	260,000
Undesignated, reported in:				
General Fund	506,256	-	-	506,256
Special Revenue Funds	-	1,331,373	305,983	1,637,356
Total fund balances	<u>1,461,256</u>	<u>1,331,373</u>	<u>321,452</u>	<u>3,114,081</u>
Total liabilities and fund balances	<u>\$ 1,780,182</u>	<u>\$ 1,350,075</u>	<u>\$ 601,340</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,385,491
Receivables are expected to be collected over several years, and are not available to pay current year expenditures	108,726
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(801,900)
Internal Service Funds are included as part of governmental activities	362,863
Other	833

Net assets of governmental activities \$ 6,170,094

City of Imlay City, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Special Revenue - Lamb Steele Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 1,207,997	\$ -	\$ -	\$ 1,207,997
Licenses and permits	35,651	-	-	35,651
Federal revenue	37,644	-	238,101	275,745
State-shared revenues	454,361	-	297,284	751,645
Charges for services	248,361	-	-	248,361
Fines and forfeitures	4,674	-	101	4,775
Interest and rentals	50,164	147,692	9,254	207,110
Other	123,007	11,250	5,831	140,088
Total revenue	2,161,859	158,942	550,571	2,871,372
Expenditures				
Current:				
General government	444,589	-	-	444,589
Public safety	1,160,400	-	2,079	1,162,479
Public works	332,635	115,364	828,994	1,276,993
Recreation and culture	79,195	-	-	79,195
Capital outlay	213,244	-	-	213,244
Debt service	40,110	-	106,694	146,804
Total expenditures	2,270,173	115,364	937,767	3,323,304
Excess of Revenue Over (Under) Expenditures	(108,314)	43,578	(387,196)	(451,932)
Other Financing Sources (Uses)				
Proceeds from issuance of note	159,000	-	-	159,000
Transfers in	-	-	95,214	95,214
Transfers out	(9,000)	-	(86,214)	(95,214)
Total other financing sources	150,000	-	9,000	159,000
Net Change in Fund Balances	41,686	43,578	(378,196)	(292,932)
Fund Balances - Beginning of year, as restated (Note 1)	1,419,570	1,287,795	699,648	3,407,013
Fund Balances - End of year	<u>\$ 1,461,256</u>	<u>\$ 1,331,373</u>	<u>\$ 321,452</u>	<u>\$ 3,114,081</u>

City of Imlay City, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (292,932)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Depreciation expense	(133,863)
Capitalized capital outlay	631,804

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	108,726
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Issuance of installment purchase agreement is revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(159,000)
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Repayment of bond principal and installment purchase agreements is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	229,770
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Increase in accumulated employee sick and vacation pay and decrease in environmental liability are recorded when earned in the statement of activities	255,159
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Internal Service Funds are also included as governmental activities	(18,391)
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Other	<u>(23,040)</u>
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Change in Net Assets of Governmental Activities \$ 598,233

City of Imlay City, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and investments (Note 2)	\$ 613,299	\$ 91,531
Receivables:		
Customers	158,129	-
Interest	6,142	585
Prepaid costs and other assets	66,355	225
Total current assets	843,925	92,341
Noncurrent assets:		
Restricted assets (Notes 2 and 7)	425,953	-
Capital assets - Net (Note 4)	10,443,610	278,007
Total noncurrent assets	10,869,563	278,007
Total assets	11,713,488	370,348
Liabilities		
Current liabilities:		
Accounts payable	114,748	-
Accrued and other liabilities	9,727	-
Current portion of long-term debt (Note 6)	175,000	7,485
Total current liabilities	299,475	7,485
Noncurrent liabilities -		
Long-term debt - Net of current portion (Note 6)	4,020,000	-
Total liabilities	4,319,475	7,485
Net Assets		
Invested in capital assets - Net of related debt	6,248,610	278,007
Restricted for bond ordinances	425,953	-
Unrestricted	719,450	84,856
Total net assets	\$ 7,394,013	\$ 362,863

City of Imlay City, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
Operating Revenue - Charges for services	\$ 1,384,048	\$ 86,045
Operating Expenses		
Salaries, wages, and fringe benefits	298,107	38,577
Supplies	32,116	4,048
Repairs and maintenance	186,358	10,923
Insurance	17,567	16,249
Utilities	73,022	-
Purchase of water	532,896	-
Other services and supplies	80,984	9,047
Depreciation and amortization	356,721	49,855
Total operating expenses	1,577,771	128,699
Operating Loss	(193,723)	(42,654)
Nonoperating Revenue (Expense)		
Property taxes	449,644	-
Investment income	23,351	697
Interest expense	(228,755)	(1,434)
Other	12,561	-
Total nonoperating revenue (expense)	256,801	(737)
Income (Loss) - Before transfers	63,078	(43,391)
Transfers from (to) Other Funds	(25,000)	25,000
Change in Net Assets	38,078	(18,391)
Net Assets - Beginning of year	7,355,935	381,254
Net Assets - End of year	<u><u>\$ 7,394,013</u></u>	<u><u>\$ 362,863</u></u>

City of Imlay City, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	\$ 1,456,148	\$ 86,045
Payments to suppliers	(985,666)	(39,095)
Payments to employees	(298,107)	(38,577)
Net cash provided by operating activities	172,375	8,373
Cash Flows from Noncapital Financing Activities -		
Interfund transfers in(out) to other funds	(25,000)	25,000
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(60,588)	-
Principal and interest paid on capital debt	(398,755)	(17,729)
Collection of property taxes	462,205	-
Net cash provided by capital and related financing activities	2,862	(17,729)
Cash Flows from Investing Activities -		
Interest received on investments	23,860	697
Net Increase in Cash and Cash Equivalents	174,097	16,341
Cash and Cash Equivalents - Beginning of year	865,155	75,190
Cash and Cash Equivalents - End of year	<u>\$ 1,039,252</u>	<u>\$ 91,531</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 613,299	\$ 91,531
Restricted assets (Notes 2 and 7)	425,953	-
Total	<u>\$ 1,039,252</u>	<u>\$ 91,531</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (193,723)	\$ (42,654)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	356,721	49,855
Changes in assets and liabilities:		
Receivables	60,306	-
Other assets	(1,596)	-
Accounts payable	(49,333)	1,172
Net cash provided by operating activities	<u>\$ 172,375</u>	<u>\$ 8,373</u>

City of Imlay City, Michigan

Fiduciary Fund - Agency Fund Statement of Assets and Liabilities June 30, 2004

Assets - Cash and investments (Note 2)	\$ 162,976
Liabilities - Amounts due to other governmental units	\$ 162,976

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Imlay City, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Imlay City, Michigan:

Reporting Entity

The City of Imlay City, Michigan was incorporated in 1970 and is located in Lapeer County, Michigan. The City is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a seven-member City Commission elected by the community at large. The legislative body selects the mayor from among its members and appoints a city manager to administer the affairs of the City. The City provides services to approximately 3,900 residents as authorized by its charter. The accompanying financial statements present the City and its component unit; an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Unit - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the DDA's budget is subject to approval by the City Commission.

Jointly Governed Organization - The City is a member of the Lapeer County Emergency Medical Service Authority (the "Authority"), a joint venture that operates under the Urban Corporation Act of 1967. Various local units of government within Lapeer County have elected to provide ambulance services to residents within their area by joining the Authority. Each local unit appoints one individual to serve on the Board of Directors. The Authority has locations in Lapeer, North Branch, and Imlay City. During the year ended June 30, 2004, the City contributed approximately \$5,000 toward the Authority's operations. The City's interest in net assets of the Authority is not significant.

As a result of the financial difficulties incurred by the Authority, the City may be required to make additional contributions in future periods to sustain the Authority's operations. The amount and timing of the City's contributions, if any, are not known at this time.

Note 1 - Summary of Significant Accounting Policies (Continued)

Complete financial statements for the Authority can be obtained from Lapeer County Medical Service Authority, 15 East Genesee Street, Lapeer, Michigan 48446.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and any associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Lamb Steele Fund - The Lamb Steele Fund is used to account for the revenues and expenditures associated with the Lamb Steele building.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2003 tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$95.559 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 13 mills for operating purposes, and 4.75 mills for Water and Sewer Enterprise Fund debt service. This resulted in \$1.242 million for operating, and \$453,907 for Water and Sewer Enterprise Fund debt service. These amounts are recognized in the respective General and Water and Sewer Enterprise Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts, which are not significant.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 years
Water and sewer system	20 to 70 years
Treatment plant and water tower	40 to 50 years
Buildings improvements	50 years
Vehicles	3 to 5 years
Machinery and other equipment	5 to 10 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits.

All vacation pay and 50 percent of sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 1 - Summary of Significant Accounting Policies (Continued)

GASB Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Imlay City, Michigan has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets include assets totaling approximately \$4,050,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at July 1, 2003, previously reported in the General Fixed Assets Account Group, have been adjusted by approximately \$1,511,000 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$821,494 previously reported in the General Long-term Debt Account Group.

Fund Balance of Governmental Funds

Beginning fund balance in the General Fund was decreased by approximately \$95,000 to adjust investment balances as of July 1, 2003.

City of Imlay City, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Board allows all investments in accordance with Public Act 196 of 1997; therefore the City's investment policy is in accordance with statutory authority.

The City's deposits and investments at June 30, 2004 are included on the balance sheet under the following classifications:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash and investments	\$ 3,616,291	\$ 613,299	\$ 162,976	\$ 4,392,566	\$ 212,420
Restricted assets	-	425,953	-	425,953	-
Total	<u>\$ 3,616,291</u>	<u>\$ 1,039,252</u>	<u>\$ 162,976</u>	<u>\$ 4,818,519</u>	<u>\$ 212,420</u>

	Primary Government	Fiduciary Fund	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,427,822	\$ 162,976	\$ 212,420
Investments in securities, mutual funds, and similar vehicles	1,227,121	-	-
Petty cash or cash on hand	600	-	-
Total	<u>\$ 4,655,543</u>	<u>\$ 162,976</u>	<u>\$ 212,420</u>

Note 2 - Deposits and Investments (Continued)

Deposits

The City's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or deposits in transit) at approximately \$3,784,000. Of that amount, approximately \$830,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

The City's investments are categorized below to give an indication of the level of risk assumed by the City at June 30, 2004. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty or
- b. The counterparty's trust department (or agent) but not in the City's name

City of Imlay City, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

The investments of the City are categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - U.S. government securities	\$ -	\$ -	\$ 964,463	\$ 964,463
Investments not subject to categorization:				
Interlocal agreement investment pool funds				140,562
Mutual funds				122,096
Total primary government				\$ 1,227,121

The mutual funds and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC and the interlocal agreement is regulated by the Urban Cooperation Act. Management believes the investments comply with the authority noted above.

Component Unit

The deposits and investments of the component unit consist of bank deposits totaling \$212,421 held in the name of the City of Imlay City, Michigan. The federal depository insurance pertains to all deposits of the City; therefore, the specific coverage pertaining to the component unit, if any, is not determinable.

Note 3 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists solely of unavailable revenue totaling \$108,726.

City of Imlay City, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 846,694	\$ -	\$ -	\$ 846,694
Capital assets being depreciated:				
Land improvements	164,000	4,204	-	168,204
Roads and sidewalks	-	281,302	-	281,302
Buildings and improvements	2,038,051	26,719	-	2,064,770
Machinery and equipment	1,216,126	319,579	-	1,535,705
Vehicles	759,662	-	-	759,662
Subtotal	4,177,839	631,804	-	4,809,643
Accumulated depreciation:				
Land improvements	103,240	15,338	-	118,578
Buildings and improvements	661,698	40,864	-	702,562
Machinery and equipment	612,383	77,661	-	690,044
Vehicles	431,800	49,855	-	481,655
Subtotal	1,809,121	183,718	-	1,992,839
Net capital assets being depreciated	2,368,718	448,086	-	2,816,804
Net capital assets	<u>\$ 3,215,412</u>	<u>\$ 448,086</u>	<u>\$ -</u>	<u>\$ 3,663,498</u>

City of Imlay City, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated - Land and land rights	\$ 55,798	\$ -	\$ -	\$ 55,798
Capital assets being depreciated:				
Treatment plant	10,132,783	-	-	10,132,783
Water and sewer system	3,077,855	60,588	-	3,138,443
Equipment	173,223	-	-	173,223
Water tower	936,526	-	-	936,526
Subtotal	14,320,387	60,588	-	14,380,975
Accumulated depreciation:				
Treatment plant	2,407,862	243,700	-	2,651,562
Water and sewer system	1,025,414	76,885	-	1,102,299
Equipment	78,440	11,637	-	90,077
Water tower	130,494	18,731	-	149,225
Subtotal	3,642,210	350,953	-	3,993,163
Net capital assets being depreciated	10,678,177	(290,365)	-	10,387,812
Net capital assets	<u>\$ 10,733,975</u>	<u>\$ (290,365)</u>	<u>\$ -</u>	<u>\$ 10,443,610</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 39,431
Public safety	68,431
Public works	4,037
Recreation and culture	21,964
Internal Service Fund - Depreciation charged to the various functions based on their usage of the asset	<u>49,855</u>
Total governmental activities	<u>\$ 183,718</u>
Business-type activities - Water and Sewer Fund	<u>\$ 350,953</u>

Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>		<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	(1)	Local Streets Fund	\$ 9,000
Major Streets Fund	(2)	Local Streets Fund	45,000
Major Streets Fund	(3)	Transportation Bond Fund	<u>41,214</u>
Total Governmental Funds			<u>\$ 95,214</u>
Water and Sewer Fund	(1)	Motor Pool Fund	<u>\$ 25,000</u>

- (1) Transfer of discretionary funds to be used for the benefit of the City
- (2) Transfer of Act 51 revenue-sharing payments from the Major Streets Fund to Local Streets Fund as permitted by State law
- (3) Transfer for debt service payments

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities				
General obligation bonds:				
1992 Michigan Transportation Bonds, annual installments of \$35,000 through July 2005, interest at 6.2 percent to 6.4 percent	\$ 70,000	\$ (35,000)	\$ 35,000	\$ 35,000
1992 general obligation unlimited tax bonds, annual installments of \$55,000 to \$65,000 through September 2007, interest at 6.00 percent to 6.15 percent	295,000	(50,000)	245,000	55,000
Installment purchase agreements:				
1995 installment purchase agreement payable in annual installments of \$18,747, including interest at 5.85 percent, through December 2003	37,824	(37,824)	-	-
1999 installment purchase agreement, payable in annual installments of \$7,236, interest at 3.75 percent, through October 2004	25,843	(18,607)	7,236	7,236
1999 State of Michigan Prospective Business and Industrial Park Loan, yearly installments of \$19,679 through 2014	263,918	(72,048)	191,870	19,679
1999 installment purchase agreement, payable in annual installments of \$5,136 to \$16,903, interest at 3.75 percent, through October 2004	22,679	(16,291)	6,388	6,388
2004 installment purchase agreement, payable in annual installments of \$34,209, interest at 2.45 percent, through April 2009	-	159,000	159,000	31,800
Compensated absences	112,565	14,841	127,406	13,960
Environmental remediation liability (see Note 10)	300,000	(270,000)	30,000	30,000
Total governmental activities	<u>\$ 1,127,829</u>	<u>\$ (325,929)</u>	<u>\$ 801,900</u>	<u>\$ 199,063</u>

Note 6 - Long-term Debt (Continued)

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities				
General obligation bonds - 1995 limited tax general obligation refunding bonds, annual installments of \$75,000 to \$375,000 through October 2015, interest at 4.75 percent to 5.7 percent	\$ 1,670,000	\$ (75,000)	\$ 1,595,000	\$ 75,000
Revenue bonds:				
2001 revenue bonds - Annual installments of \$70,000 to \$180,000 through October 2021, interest at 4.2 percent to 5.7 percent	2,125,000	(65,000)	2,060,000	70,000
1995 revenue bonds annual installments of \$30,000 to \$60,000 through October 2015, interest at 5.3 percent to 5.9 percent	570,000	(30,000)	540,000	30,000
Total business-type activities	<u>\$ 4,365,000</u>	<u>\$ (170,000)</u>	<u>\$ 4,195,000</u>	<u>\$ 175,000</u>
Component Unit Activity -				
Downtown Development Authority - 1996 DDA Limited Tax Bonds in annual installments of \$95,000 to \$130,000 through December 1, 2004, including interest at 4.70 percent to 6.7 percent	<u>\$ 255,000</u>	<u>\$ (125,000)</u>	<u>\$ 130,000</u>	<u>\$ 130,000</u>

Annual debt service requirements to maturity for the above bonds and note obligations, not including environmental remediation and compensated absences, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 155,103	\$ 17,157	\$ 172,260	\$ 175,000	\$ 220,516	\$ 395,516
2006	111,479	12,187	123,666	185,000	211,771	396,771
2007	116,479	8,389	124,868	190,000	202,630	392,630
2008	116,479	4,408	120,887	195,000	193,196	388,196
2009	51,479	2,409	53,888	200,000	183,300	383,300
2010-2022	93,475	-	93,475	3,250,000	1,071,176	4,321,176
Total	<u>\$ 644,494</u>	<u>\$ 44,550</u>	<u>\$ 689,044</u>	<u>\$ 4,195,000</u>	<u>\$ 2,082,589</u>	<u>\$ 6,277,589</u>

Note 7 - Restricted Assets

In accordance with revenue bond and other restrictions, cash and investments in the Water and Sewer Enterprise Fund have been restricted for the following purposes:

Revenue bond restrictions:

Operation and maintenance reserve	\$ 45,959
Bond interest and redemption reserve	120,603
Bond reserve	<u>259,391</u>
Total restricted assets	<u>\$ 425,953</u>

Retained earnings have been reserved for the amount of restricted assets at June 30, 2003.

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and manages its liability, property, and workers' compensation risk by participating in the Michigan Municipal League public entity risk pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City has established an Internal Service Fund (Insurance Fund) used to cover employees' annual deductibles on health insurance claims. The plan covers medical and prescription costs up to \$1,000 per person per year for those employees in the Department of Public Works union group. As of June 30, 2004, the amount of claims incurred but not reported is immaterial and has not been recorded.

Note 9 - Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employer of 12.30 percent and 10.51 percent of gross wages for general and police and fire employees, respectively.

Annual Pension Cost - For year ended June 30, 2004 the City's annual pension cost of \$98,256 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ 73,450	\$ 86,400	\$ 98,256
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 9 - Pension Plan (Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/01	\$ 2,165,720	\$ 2,739,083	\$ 573,363	79	\$ 886,479	65
12/31/02	2,297,961	2,946,495	648,534	78	939,383	69
12/31/03	2,539,567	3,167,250	627,683	80	965,666	65

Note 10 - Environmental Remediation

The City has determined that it has incurred a liability for environmental remediation costs resulting from contamination from the release of gasoline, diesel fuel, and heating oil from underground storage tanks formerly present at the Department of Public Works property. Accordingly, an estimated liability for \$30,000 has been recorded in governmental activities (see Note 6). A final determination has not been made concerning the City's ultimate obligation in this matter, and it is not possible to estimate whether an additional liability will be recorded in the future.

Required Supplemental Information

City of Imlay City, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year, as restated	\$ 1,502,089	\$ 1,502,089	\$ 1,419,570	\$ (82,519)
Revenues				
Property taxes	1,205,003	1,218,757	1,207,997	(10,760)
Licenses and permits	26,325	27,279	35,651	8,372
Federal revenue	-	-	37,644	37,644
State-shared revenues and grants	454,000	448,435	454,361	5,926
Charges for services	243,200	252,275	248,361	(3,914)
Fines and forfeitures	6,450	3,000	4,674	1,674
Interest and rentals	69,900	63,100	50,164	(12,936)
Other	37,450	220,350	282,007	61,657
Total revenues	2,042,328	2,233,196	2,320,859	87,663
Expenditures				
General government	381,904	424,665	444,589	(19,924)
Public safety	947,489	1,125,562	1,160,400	(34,838)
Public works	385,456	385,760	332,635	53,125
Recreation and culture	79,180	81,758	79,195	2,563
Capital outlay	396,161	256,155	213,244	42,911
Debt service	42,735	40,110	40,110	-
Transfers out	-	4,500	9,000	(4,500)
Total expenditures	2,232,925	2,318,510	2,279,173	39,337
Fund Balance - End of year	<u>\$ 1,311,492</u>	<u>\$ 1,416,775</u>	<u>\$ 1,461,256</u>	<u>\$ 44,481</u>

City of Imlay City, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Lamb Steele Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,287,795	\$ 1,287,795	\$ 1,287,795	\$ -
Revenues				
Interest and rentals	225,000	157,500	147,692	(9,808)
Other	<u>7,500</u>	<u>7,500</u>	<u>11,250</u>	<u>3,750</u>
Total revenues	232,500	165,000	158,942	(6,058)
Expenditures - Public works	<u>342,500</u>	<u>93,398</u>	<u>115,364</u>	<u>21,966</u>
Fund Balance - End of year	<u><u>\$ 1,177,795</u></u>	<u><u>\$ 1,359,397</u></u>	<u><u>\$ 1,331,373</u></u>	<u><u>\$ (28,024)</u></u>

City of Imlay City, Michigan

Note to Required Supplemental Information June 30, 2004

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the first commission meeting in April, the city manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund, Special Revenue Funds, and Debt Service Funds.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to the first Monday in May, the budget is legally enacted through passage of an ordinance.
- d. Formal budgetary integration is employed as a management control device during the year for all funds except the Agency Fund and Internal Service Fund.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund level.

Amounts encumbered for purchase orders, contracts, and other commitments are not tracked during the year. Budget appropriations are considered to be spent only when an expenditure has been recognized (i.e., when goods are received or services are rendered).

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Other Supplemental Information

City of Imlay City, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets	Industrial Park Development	Drug Forfeiture	Industrial Park Revolving Loan
Assets					
Cash and investments	\$ 308,387	\$ 50,741	\$ 121,834	\$ 4,172	\$ 47,808
Receivables - Net	<u>34,565</u>	<u>12,703</u>	<u>700</u>	<u>-</u>	<u>4,961</u>
Total assets	<u>\$ 342,952</u>	<u>\$ 63,444</u>	<u>\$ 122,534</u>	<u>\$ 4,172</u>	<u>\$ 52,769</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 250,043	\$ 1,420	\$ -	\$ -	\$ -
Deferred revenue	<u>17,951</u>	<u>5,511</u>	<u>-</u>	<u>-</u>	<u>4,963</u>
Total liabilities	267,994	6,931	-	-	4,963
Fund Balances					
Reserved for debt service	-	-	-	-	-
Unreserved	<u>74,958</u>	<u>56,513</u>	<u>122,534</u>	<u>4,172</u>	<u>47,806</u>
Total fund balances	<u>74,958</u>	<u>56,513</u>	<u>122,534</u>	<u>4,172</u>	<u>47,806</u>
Total liabilities and fund balances	<u>\$ 342,952</u>	<u>\$ 63,444</u>	<u>\$ 122,534</u>	<u>\$ 4,172</u>	<u>\$ 52,769</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Debt Service Funds		
	General	
	Obligation	Total Nonmajor
Transportation	Unlimited Tax	Governmental
Bonds	Bonds	Funds
\$ 1,370	\$ 14,099	\$ 548,411
-	-	52,929
<u>\$ 1,370</u>	<u>\$ 14,099</u>	<u>\$ 601,340</u>
\$ -	\$ -	\$ 251,463
-	-	28,425
-	-	279,888
1,370	14,099	15,469
-	-	305,983
1,370	14,099	321,452
<u>\$ 1,370</u>	<u>\$ 14,099</u>	<u>\$ 601,340</u>

City of Imlay City, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets	Industrial Park Development	Drug Forfeiture	Industrial Park Revolving Loan
Revenue					
Federal revenue	238,101	-	-	-	-
State-shared revenues	230,784	66,500	-	-	-
Fines and forfeitures	-	-	-	101	-
Interest and rentals	6,045	714	1,548	81	684
Other	-	144	-	-	5,687
Total revenue	474,930	67,358	1,548	182	6,371
Expenditures					
Public safety	-	-	-	2,079	-
Public works	589,040	225,678	12,174	-	2,102
Debt service	-	-	-	-	-
Total expenditures	589,040	225,678	12,174	2,079	2,102
Excess of Revenue Over (Under) Expenditures	(114,110)	(158,320)	(10,626)	(1,897)	4,269
Other Financing Sources (Uses)					
Transfers in	-	54,000	-	-	-
Transfers out	(86,214)	-	-	-	-
Total other financing sources (uses)	(86,214)	54,000	-	-	-
Net Change in Fund Balances	(200,324)	(104,320)	(10,626)	(1,897)	4,269
Fund Balances - Beginning of year	275,282	160,833	133,160	6,069	43,537
Fund Balances - End of year	\$ 74,958	\$ 56,513	\$ 122,534	\$ 4,172	\$ 47,806

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Debt Service Funds		
	General	
	Obligation	Total Nonmajor
Transportation	Unlimited Tax	Governmental
Bonds	Bonds	Funds
-	-	\$ 238,101
-	-	297,284
-	-	101
-	182	9,254
-	-	5,831
-	182	550,571
-	-	2,079
-	-	828,994
39,927	66,767	106,694
39,927	66,767	937,767
(39,927)	(66,585)	(387,196)
41,214	-	95,214
-	-	(86,214)
41,214	-	9,000
1,287	(66,585)	(378,196)
83	80,684	699,648
\$ 1,370	\$ 14,099	\$ 321,452

City of Imlay City, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2004

	Motor Pool Fund	Insurance Fund	Totals
Assets			
Current assets:			
Cash and investments	\$ 86,683	\$ 4,848	\$ 91,531
Accounts receivables	35	-	35
Accrued interest receivable	550	-	550
Prepaid expenses	225	-	225
Total current assets	87,493	4,848	92,341
Noncurrent assets - Capital assets	278,007	-	278,007
Total assets	365,500	4,848	370,348
Liabilities - Current portion of long-term debt	7,485	-	7,485
Net Assets			
Invested in capital assets - Net of related debt	278,007	-	278,007
Unrestricted	80,008	4,848	84,856
Total net assets	<u>\$ 358,015</u>	<u>\$ 4,848</u>	<u>\$ 362,863</u>

City of Imlay City, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets Internal Service Funds Year Ended June 30, 2004

	Motor Pool Fund	Insurance Fund	Totals
Operating Revenue - Charges for service	\$ 76,251	\$ 9,794	\$ 86,045
Operating Expenses			
Salaries, wages, and fringe benefits	38,577	-	38,577
Supplies	4,048	-	4,048
Repairs and maintenance	10,923	-	10,923
Insurance	5,541	10,708	16,249
Other services and supplies	9,047	-	9,047
Depreciation	49,855	-	49,855
Total operating expenses	<u>117,991</u>	<u>10,708</u>	<u>128,699</u>
Operating Loss	(41,740)	(914)	(42,654)
Nonoperating Revenue (Expense)			
Investment income	688	9	697
Interest expense	<u>(1,434)</u>	<u>-</u>	<u>(1,434)</u>
Total nonoperating expense	<u>(746)</u>	<u>9</u>	<u>(737)</u>
Loss - Before contributions	(42,486)	(905)	(43,391)
Transfers from Other Funds	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Change in Net Assets	(17,486)	(905)	(18,391)
Net Assets - Beginning of year	<u>375,501</u>	<u>5,753</u>	<u>381,254</u>
Net Assets - End of year	<u><u>\$ 358,015</u></u>	<u><u>\$ 4,848</u></u>	<u><u>\$ 362,863</u></u>

City of Imlay City, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2004

	Motor Pool Fund	Insurance Fund	Totals
Cash Flows from Operating Activities			
Receipts from other funds	\$ 76,251	\$ 9,794	\$ 86,045
Payments to suppliers	(28,387)	(10,708)	(39,095)
Payments to employees	(38,577)	-	(38,577)
Net cash provided by (used in) operating activities	9,287	(914)	8,373
Cash Flows from Noncapital Financing Activities - Interfund transfers from other funds	25,000	-	25,000
Cash Flows from Capital and Related Financing Activities			
Principal and interest paid on capital debt	(17,729)	-	(17,729)
Cash Flows from Investing Activities			
Interest received on investments	688	9	697
Net Increase (Decrease) in Cash and Cash Equivalents	17,246	(905)	16,341
Cash and Cash Equivalents - July 1, 2003	69,437	5,753	75,190
Cash and Cash Equivalents - June 30, 2004	<u>\$ 86,683</u>	<u>\$ 4,848</u>	<u>\$ 91,531</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (41,740)	\$ (914)	\$ (42,654)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	49,855	-	49,855
Transfers	25,000	-	25,000
Changes in assets and liabilities - Accounts payable	1,173	-	1,173
Net cash provided by (used in) operating activities	<u>\$ 34,288</u>	<u>\$ (914)</u>	<u>\$ 33,374</u>

September 3, 2004

The Honorable Mayor and Members of
the City Commission
City of Imlay City
150 N. Main Street
Imlay City, MI 48444

Dear Mayor and Members of the City Commission:

We have recently completed the audit of the financial statements of the City of Imlay City for the year ended June 30, 2004. In addition to the audit report, we offer the following comments and recommendations for your consideration:

CITY'S FINANCIAL CONDITION

The City's General Fund revenue exceeded expenditures by approximately \$42,000 for the year ended June 30, 2004, increasing total fund balance at June 30, 2004, to approximately \$1,461,000. Of this total, \$955,000 is reserved and designated for specific purposes and \$506,000 is unreserved and undesignated. The unreserved and undesignated fund balance is approximately 22 percent of the City's 2005 General Fund budget, which is within the range typically expected by rating agencies. We compliment the City Commission and administration for their success in planning and monitoring the budget.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in most revenue sources, future capital equipment and infrastructure needs, and currently unfunded liabilities, are characteristics of the City and its physical framework. We encourage the City Commission and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate. The maintenance of an adequate level of working capital is paramount to the City's ability to meet financial challenges without affecting the level of services provided to citizens or the ability to fund future obligations.

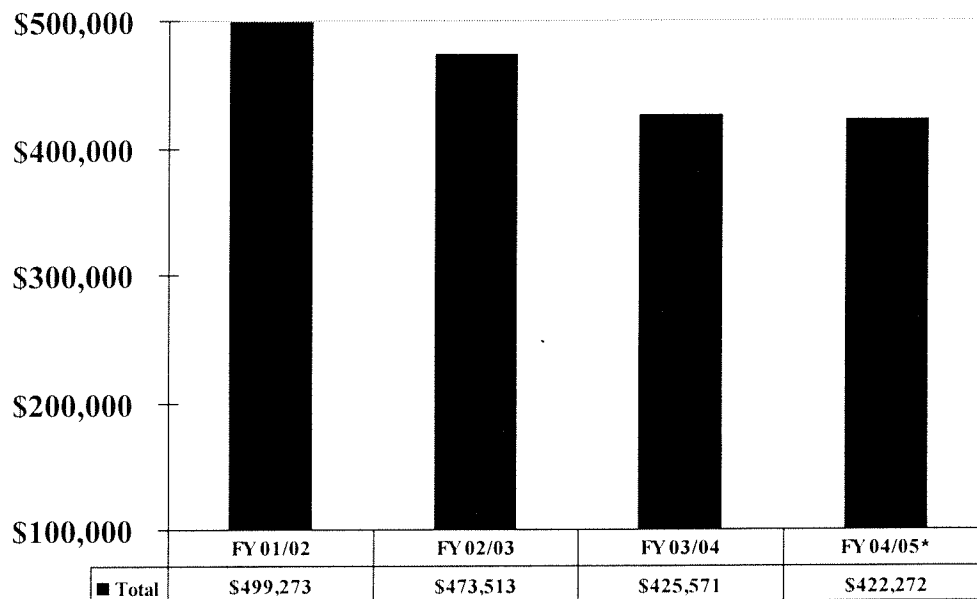
As discussed in more detail in the following item, State shared revenue is again at risk of being reduced in the current year. The City appears to be in a position to weather such a cut in the short term; however, there continue to be concerns from a long-term perspective.

REVENUE SHARING

Significant budget shortfalls at the State of Michigan negatively impact the City as a result of reduced revenue sharing payments. As you are aware, revenue sharing payments are funded solely through sales tax collections. Budget cuts to the statutory portion of revenue sharing made by the State are further compounded by reductions that result when sales tax collections are less than what is included in the State's projections.

We have included the following chart to provide you with more detail on what has occurred with revenue sharing relative to the City of Imlay City. The chart demonstrates the impact that these cuts in revenue sharing by the State have had on the City. For the City, projected revenue sharing funding levels are \$77,000 less for the 2005 fiscal year as compared to fiscal year 2002.

Total State Shared Revenue – City of Imlay City



**Projected (Data Source for all State Fiscal Years Michigan Department of Treasury.)*

It is uncertain at this point in time whether the State will make future accommodations to replace revenue lost as a result of budget cuts. As such, we recommend that the City continually monitor the impact of changes to projected revenue sharing payments on the General Fund budget. In addition to the periodic updates that we provide to the City, updated information can be obtained from the Department of Treasury's web site at:

<http://treas-secure.state.mi.us/apps/findrevshareinfo.asp>

or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

GASB STATEMENT 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a very different look to the financial statements. Preparing for this new reporting model has been a long and arduous process. Although there are many differences with this new reporting model, the major additions are as follows:

- Management's Discussion and Analysis (MD&A): The MD&A provides a high-level overview of the City's financial position and results of operations, with a focus on the government – wide financial statements.
- Government-wide Financial Statements: These additional statements adjust the traditional fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (e.g., are today's taxpayers paying for today's services?). These statements report all capital assets, as well as long term debt as part of the City's financial picture.
- Focus on Major Funds: The fund based financial statements now focus on the City's most significant funds (major funds). For 2004 the City's major governmental funds are the General Fund and the Lamb Steele Special Revenue Fund; the City's major enterprise fund is the Water and Sewer Fund.
- Budget Comparison: A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the final amended budget, but also as compared to the originally adopted budget.

The GASB believes this new model will provide a more complete picture of the financial position of governmental units. It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to Government-wide reporting, infrastructure tracking and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the City's administration and the auditors.

INTERNAL CONTROL AND ACCOUNTING MATTERS

Internal Control and Fraud Prevention - Designing and maintaining a sound system of internal controls over City assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit", the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with key members of the administration and other employees throughout the organization; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no instances of fraud were identified as a result of our procedures.

Cash and investments - The City's cash and investment accounts reflected an unreconciled difference throughout most of the year totaling approximately \$95,000, which was corrected as part of the audit. While the bank reconciliations we analyzed as part of our audit appear to have been prepared on a timely basis, the reconciliations were not fully reconciled to the general ledger, resulting in the above noted difference. While it appears procedures are in place to prepare monthly

reconciliations, we recommend that the City institute the additional procedures to ensure that all account reconciliations are completely reconciled to the general ledger on a timely basis. We would be pleased to assist the City in the establishment of these procedures.

In addition, the investments of the City's various funds are pooled (i.e., commingled in certificates of deposit and other investment accounts) in an effort to maximize investment income. The pooling of investments, however, significantly increases the complexity of the accounting for the investments and the preparation of the related monthly reconciliations. We recommend that the pooling of investments be minimized as much as possible, which we do not believe will have a significant effect on the goal of maximizing investment earnings.

Accounts receivable and payables – During the course of our audit, we noted that the City accounts for revenues and expenditures on a cash basis during the year. The recording of accounts receivable and payable balances throughout the year will allow the City to maintain its books and records on an accrual basis, which is consistent with the annual financial statements and the budget. In addition, the maintenance of accrual basis books and records will increase the usefulness of financial information provided to the City Commission and administration for decision making purposes and will facilitate the year-end closing process and preparation for the audit. As such, we recommend the City consider the development of policies and procedures to record accounts receivable and payable throughout the year. It is our understanding that the City utilizes the accounts payable module when payment is made on an invoice. However, we recommend payables are entered when the goods/services have been received and matched to an invoice. This will provide the amounts owing by the City at any given time although payment hasn't been made.

Condition of Accounting Records – Once again we have observed continued improvement in the condition of the City's financial records and related documentation for the year ended June 30, 2004. It is our understanding that the administration has committed to a plan to further improve the timeliness and accuracy of the financial reporting system in 2005, along with consideration of the aforementioned changes. We are optimistic that we will be able to report further improvements to you at this time next year.

FEDERAL GRANTS

It is our understanding that the City continues to receive significant federal grant monies through the Michigan Strategic Fund for infrastructure improvements. These grants will continue to prove to be an important part of the City's economic development and downtown revitalization in the coming years.

As you are probably aware, a "Single Audit" of the City's federal programs is required to be performed in any year that at least \$500,000 of federal grant awards are expended. Based on the timing of the projects funded by the federal grants, the City may be required to have a Single Audit performed for 2005 and later years. Please also be advised that the terms of specific grants may require a Single Audit or a specific federal program audit even in those periods where the \$500,000 threshold has not been met. If there are questions or concerns, we recommend that the City consult directly with the granting agency.

Honorable Mayor and Members of
the City Commission
City of Imlay City

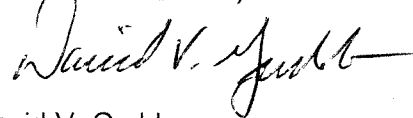
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September 3, 2004

We would like to thank the Mayor and City Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the assistance and cooperation provided to us by the administration during the audit. If you would like to discuss any of these matters further, or would like any other assistance, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



David V. Grubb



Christina M. Kostiuk